Financial Modeling: How Items Are Inter-Connected in Financial Cooperatives

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Agenda

1. The purpose of CFIs & co-operative banks

2. Defining Terms

3. Understanding the levers in financial modeling

Purpose of a CFI or Co-operative Bank

Provide affordable and responsible financial services to our members to help ensure economic justice.

Agents of Social Change

Through economic justice we can create social justice. But…

No Mission, No Margin

No Margin, No Mission

Words that have the same meaning

Income Statement = Profit and Loss

Allowance for Loan Loss = Loan Loss Reserve

Non-performing loans = Delinquent loans = Portfolio at Risk

Write off = Charge off

Capital = Equity = Net worth = Solvency = Core Capital = Institutional Capital

Financial Statements = Income statement + Balance sheet

Income statement

The income statement shows the expenses and income for the business over a certain period (i.e., month, quarter to date or year to date).

Balance Sheet

The balance sheet shows at a point in time the cumulation of assets, liabilities and equity in business since its start. It shows what the business owes (liabilities), owns (assets) and the equity in the business.

What is the Primary Source Income in CFIs?

- Collecting Savings

- Charging Fees

- Making Loans

- Donations & Grants

Levers in CFIs & Cooperative Banks

- It starts with savings.
  - Savings only come in if there is access & confidence in the CFI.

- With the savings you must make *good* loans.
  - But some will go bad, you must actively collect on them and set money aside if you can't collect.

- If you do this well, there is good impact, if you do it poorly the savers can be worse off.

A Look at Ourselves – Nov. 2019

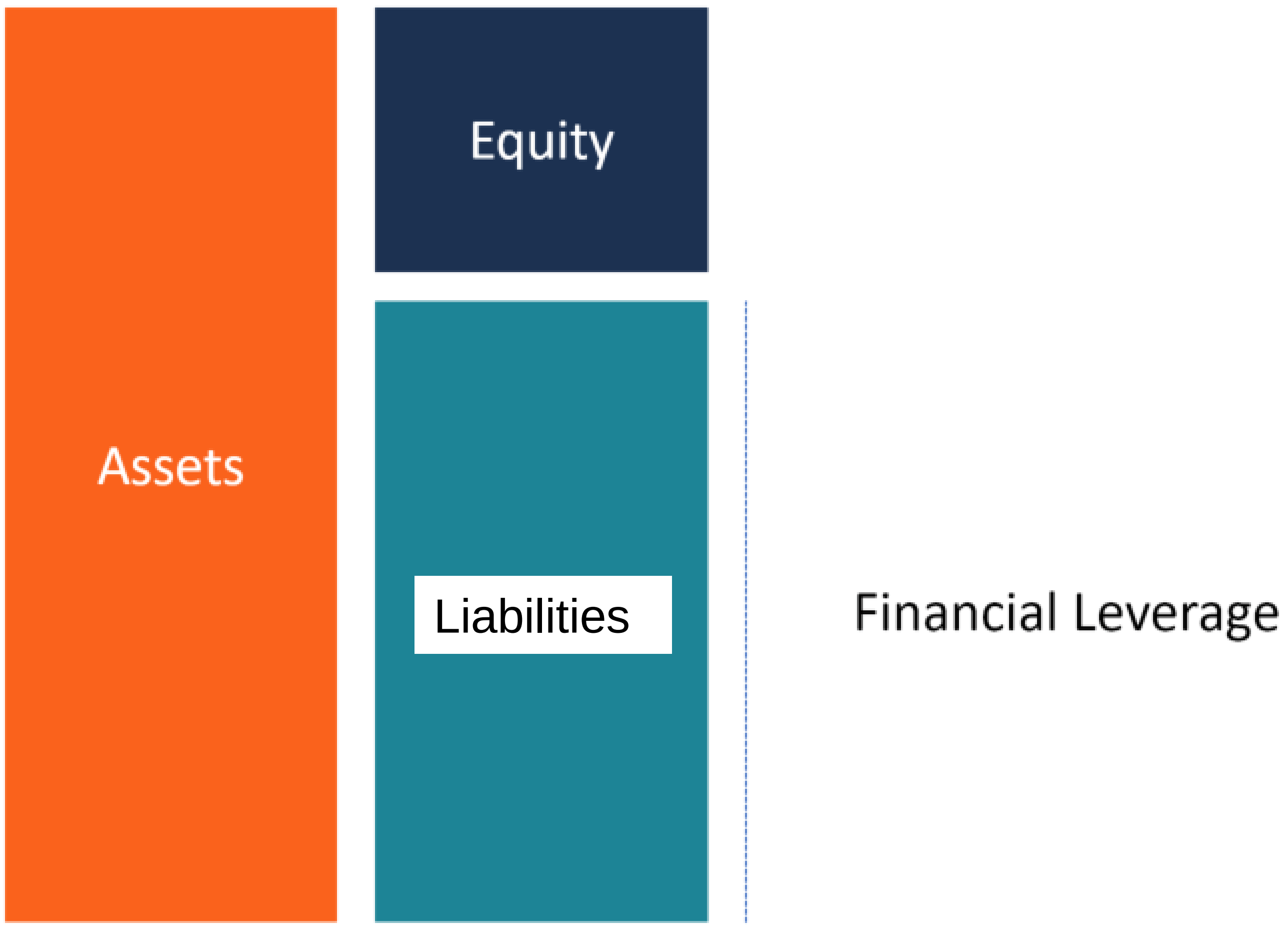
	Capital/ Assets	Non-Earning Assets/ Assets	Loans / Assets	Deposits / Assets	Portfolio Delinquent	Liquidity Ratio	Oper. Exp / Gross Income	ROA = Net Income/ Assets
Co-op Banks	15.7%	6.8%	72.0%	82.7%	5.1%	27.1%	55.4%	0.42%
Large R50M - 10M	10.3%	7.7%	56.0%	86.7%	7.3%	28.1%	67.3%	0.43%
Medium R10M - 1M	5.9%	12.7%	43.5%	64.7%	0.4%	54.9%	146.2%	-0.79%
Small <1M	40.2%	38.3%	20.5%	43.5%	36.5%	148.8%	71.0%	1.67%

CFI & SACCO Comparison

Ratio	*Kenya	Malawi	US	**Rwanda	S. Africa	Best Practice
Non-earning Assets/Assets	10.7%	10.2%	2.2%	50.7%	8.4%	
Net Inst Capital/ Total Assets	1.1%	13.3%	9.9%	15.1%	12.2%	
Loans/Assets	78%	73.7%	65%	14.6%	59%	
Delinquency	7.9%	3%	1.8%	7.5%	6.1%	
Return on Assets	3.1%	6.3%	0.2%	-3.6%	0.3%	
Operating Expense/Assets	6.7%	12.5%	3.1%	71%	1.34%	

*Pre-supervision. ** Start-up phase

Understanding Leverage



External Credit

External credit can be useful for credit unions in various stages:

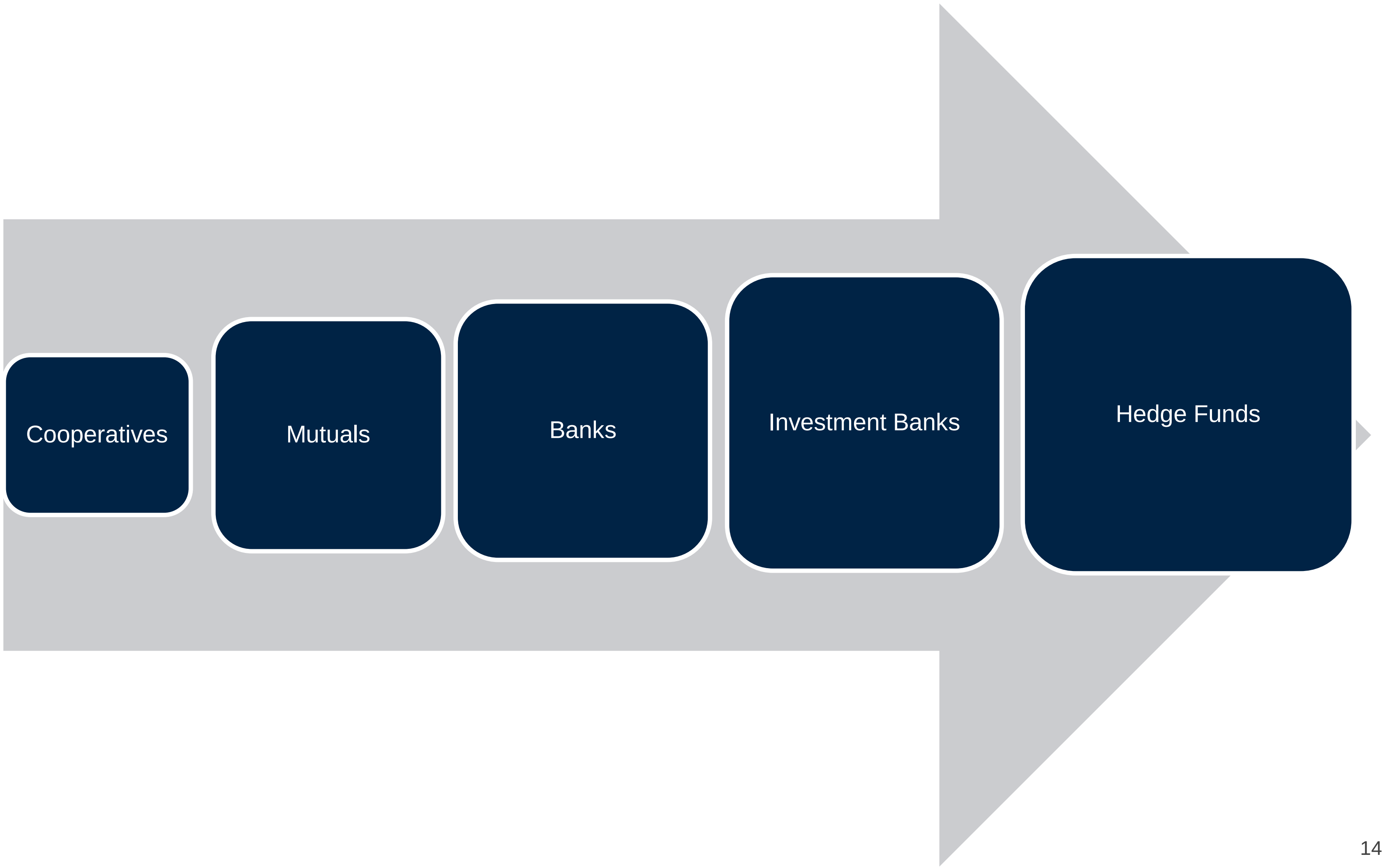
1. Early or mid-start-up institutions as a CFI is gaining confidence from the members.

2. Mature SACCOs that have periods or seasons of high-loan demand. e.g., Sugar can production season in Eswatini.

However, No one can serve two masters. Either you will hate the one and love the other, or you will be devoted to the one and despise the other.

- Need to choose member deposits or borrowing. Members want to safe in an accessible, safe place with low fees.

More Leverage More Potential Profit



Discussion

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